

Message Text

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 6027

C O N F I D E N T I A L CAIRO 8361

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AIDAC

E.O. 11652: GDS

SUBJECT: FY 1977 PROGRAM SUBMISSION

REF: A. STATE 189193 B. CAIRO 7303

C. STATE 178995 D. CAIRO 7585

1. AMBASSADOR AND AID/REP HAVE CAREFULLY CONSIDERED IMPLICATIONS OF FORMAT FOR CONGRESSIONAL PRESENTATION SET OUT IN REF A IN WHICH FIFTEEN-MONTH SPAN IS TO BE BROKEN INTO TWO DISTINCT FISCAL PERIODS. IN ORDER TO BE CONSISTENT WITH UNDERTAKING EXPRESSED IN US/EGYPTIAN DISCUSSIONS AT HIGHEST LEVELS, WE HAVE CONCLUDED THAT FIGURE OF \$500 MILLION SHOULD STAND FOR TY 1976 EVEN THOUGH THAT FISCAL PERIOD WILL BE ONLY TWELVE MONTHS. AS WE UNDERSTAND THE DISCUSSIONS, THE ABOVE FIGURE WAS CITED FOR FY 1976 WITHOUT REFERENCE TO INTERIM QUARTER. THUS, SINCE FY 1976 EXCLUDES THE INTERIM QUARTER, WE CAN ONLY APPLY THE \$500 MILLION TO THE TWELVE-MONTH PERIOD.

2. FURTHERMORE, FOR THE REASONS SET FORTH IN REF B , WE CONTINUE TO RECOMMEND SAME FIGURE FOR FY 1977. THUS IN ORDER TO MAINTAIN CONSISTENT RATIONALE FOR CONTINUING ASSISTANCE TO EGYPT AT THAT LEVEL, WE CONCLUDE THAT OUR ASSISTANCE SHOULD BE PROPORTIONATELY THE SAME FOR THE INTERIM QUARTER, I.E., \$125 MILLION, OR ONE-FOURTH OF RECOMMENDED LEVELS FOR FY 1966 AND FY 1977.

3. WE RECOGNIZE THAT FIGURES REPRESENT SIGNIFICANT INCREASE

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OVER FY 1975 LEVEL, PARTICULARLY SINCE THERE COULD WELL BE

TENDENCY TO LUMP FY 1976 AND INTERIM QUARTER TOTALS TOGETHER DESPITE THE SEPARATE FISCAL PERIODS INVOLVED. HOWEVER, WE SEE NO ALTERNATIVE IF WE ARE TO MAINTAIN OUR UNDERTAKINGS WITH THE EGYPTIANS AS WE UNDERSTAND THEM. EGYPTIAN OFFICIALS WILL, OF COURSE, KEEP A CLOSE WATCH ON THE LEVEL OF OUR AID TO ISRAEL AND WILL EXPECT EQUITABLE TREATMENT.

4. IN ANY EVENT, THE TOTAL FIGURE FOR FY 1976 AND INTERIM QUARTER WILL PERMIT US TO MEET OUR DUAL OBJECTIVES OF (A) MAINTAINING COMMODITY IMPORT FINANCING FOR CY 1976 AT ROUGHLY THE LEVEL PLANNED FOR CY 1975, I.E., \$250 MILLION, AND (B) MAINTAINING THE DESIRED FIFTY-FIFTY SPLIT BETWEEN CIP AND PROJECT ASSISTANCE IN FY 1976. GIVEN THE POLITICAL OUTLOOK, LITTLE OR NO REDUCTION IN EGYPT'S DEFICIT ON GOODS AND SERVICES, AND A PROBABLE SLACKENING OF BALANCE OF PAYMENTS SUPPORT FROM OTHER DONORS, WE BELIEVE THAT ONLY REALISTIC PROJECTION OF CIP ASSISTANCE IN CY 1976 IS CONTINUATION OF CY 1975 LEVEL. WHILE WE RECOGNIZE DESIRABILITY, IN TERMS OF CONGRESSIONAL RELATIONS, OF REDUCING SUCH AID OVER TIME, WE BELIEVE THAT POLITICAL AND FINANCIAL IMPERATIVES IN EGYPT WILL BRING GREAT PRESSURE AGAINST REDUCTION OF OUR CIP LEVEL IN CY 1976. THUS, WE TEND TO BELIEVE THAT PRESENTATION TO CONGRESS OF A REALISTIC LEVEL AT OUTSET WOULD BE BETTER STRATEGY THAN RAISING LEVEL IN MID-YEAR AS WAS DONE IN FY 1975 TO RESPOND TO AN EMERGENCY FINANCIAL SITUATION.

5. WE PROPOSE THAT \$250 MILLION OR HALF OF THE FY 1976 LEVEL BE PROGRAMMED FOR CIP, GIVING US \$150 MILLION FOR THIS PURPOSE IN CY 1976. WE WOULD PROGRAM THE OTHER HALF FOR PROJECT-TYPE ASSISTANCE AS OUTLINED IN REF (B) AND PARAGRAPH 7 BELOW.

6. WE ALSO PROPOSE THAT \$100 MILLION BE PROGRAMMED FOR CIP IN THE INTERIM QUARTER, PERMITTING US TO MAINTAIN FOR CY 1976 AN OVERALL CIP LEVEL OF \$250 MILLION, WITH THE BALANCE OF \$25 MILLION SLATED FOR PROJECT-TYPE AID. WHILE WE RECOGNIZE THAT THIS SPLIT DOES NOT MAINTAIN THE FIFTY-FIFTY BREAKDOWN, WE BELIEVE IT CAN BE JUSTIFIED ON GROUND THAT INTERIM QUARTER IS UNIQUE EVENT, SPANNING RELATIVELY SHORT PERIOD OF TIME FOR WHICH IT WILL BE DIFFICULT TO TARGET CULMINATION OF PROJECT DEVELOPMENT AND APPROVAL PROCESSES WITH FIRM ASSURANCES THAT REQUESTED FUNDS CAN BE OBLIGATED. FURTHERMORE, WE BELIEVE THAT PRESSURES WILL HAVE

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MOUNTED FOR CIP AID AS EGYPTIAN BALANCE OF PAYMENTS PROBLEMS CREATE ANOTHER FINANCIAL EMERGENCY BY MID-1976, PARTICULARLY IN VIEW POSSIBILITY INDICATED IN PARA. 4 OF REF (C) THAT PL 480 ASSISTANCE MAY BE REDUCED.

7. WE HAVE ALSO CAREFULLY REVIEWED PROJECT-TYPE PROGRAM PROPOSED PREVIOUSLY FOR FY 1976. IN ORDER TO RAISE TOTAL TO \$250 MILLION, WE PROPOSE ADDING THE FOLLOWING:

A. \$15 MILLION INCREASE IN ALLOCATION TO THE SUEZ CEMENT PLANT (FROM \$70 TO \$85 MILLION) TO FINANCE RELATED FACILITIES FOR LIME PRODUCTION OF ONE MILLION TON OUTPUT PER YEAR.

B. \$20 MILLION FOR GAS-TURBINES (TOTAL OF 120 MW) FOR HELWAN AREA.

C. \$15 MILLION FOR AGRICULTURAL SECTOR EQUIPMENT, INCLUDING EQUIPMENT AND SUPPLIES TO SUPPORT THE PROPOSED WATER MANAGEMENT PROJECT.

8. AS PROJECT-TYPE AID OF \$25 MILLION IN INTERIM QUARTER, WE PROPOSE TO FINANCE WATER SUPPLY AND/OR SEWAGE DISPOSAL FACILITIES, INCLUDING EQUIPMENT AND SUPPLIES TO SUPPORT THE PROPOSED RURAL HEALTH PROJECT.

9. AS INDICATED IN REF (D), WE FULLY INTEND TO SUPPORT BOTH WATER MANAGEMENT AND RURAL HEALTH PROJECTS WITH CAPITAL INVESTMENTS, PROJECTIZING SUCH INVESTMENTS AS SOON AS POSSIBLE. NEVERTHELESS, WE CONTINUE TO SEE BOTH PROJECTS AS MORE LIMITED THAN A COMPREHENSIVE SECTOR APPROACH. IN FACT, SINCE BOTH WILL HAVE PRIMARY FOCUS ON GALVANIZING GREATER GOE ACTION, THEY WILL HAVE STRONG PILOT AND EXPERIMENTAL ASPECTS AS WAYS AND MEANS ARE PROGRESSIVELY SOUGHT TO GENERATE MORE CONCERTED GOE EFFORTS. CONSEQUENTLY, WE WILL NEED TO PROGRAM CAPITAL SUPPORT ON A PROGRESSIVE BASIS SO THAT IT WILL NOT ONLY PROVIDE NEEDED RESOURCES BUT WILL ALSO SERVE AS AN INCENTIVE FOR THE GOE TO MAKE APPROPRIATE POLICY AND ORGANIZATIONAL CHANGES.
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